

Delaware Transit Corporation

**Financial Statements and
Independent Auditors' Reports**

June 30, 2005 and 2004

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Delaware Transit Corporation

Management's Discussion and Analysis

This section of the Delaware Transit Corporation's (DTC) annual financial statements presents our discussion and analysis of DTC's financial performance during the fiscal year ended June 30, 2005.

Background

DTC is a division of the Delaware Department of Transportation (DelDOT) and operates DART First State Public Transportation Service. DTC was formed in 1995 to manage the combined operations of the Delaware Administration for Regional Transit, the Delaware Administration for Specialized Transit, the Delaware Railroad Administration, and Commuter Services Administration. DTC operates 207 fixed route and 195 Paratransit vehicles on over 69 routes in Delaware's three counties. DTC contracts with the Southeastern Pennsylvania Transportation Authority (SEPTA) for commuter rail service. DTC also operates and maintains 41 park-and-ride lots and 13 park-and-pool lots with approximately 5,300 parking spaces. DTC maintains 2,800 bus stops throughout the State, with major transit hubs in Wilmington, Christiana Mall, Dover, and Rehoboth Beach. DTC owns or leases four rail stations that are serviced by SEPTA. All services carry over nine million riders per year.

Financial Highlights

- The 2005 operating revenues were approximately \$11.2 million and were 2.6% lower than 2004 operating revenues. Nontransportation revenues contributed to the decrease, specifically loss contingency insurance recoveries.
- Total operating expenses before depreciation were approximately \$69.3 million in 2005. The 9.3% increase in total operating expenses before depreciation over 2004 is largely due to increased costs of wages, benefits, and diesel fuel. Diesel fuel has increased 60% over 2004.
- A \$16.4 million investment was made in capital assets during the current year. This was primarily attributable to the investment in facilities and the purchase of revenue vehicles.

Overview of the Financial Statements

The financial section of this annual report consists of four parts: 1) management's discussion and analysis (this section), 2) the basic financial statements, 3) the notes to the financial statements, and 4) other supplementary information.

Delaware Transit Corporation

Management's Discussion and Analysis (Continued)

The financial statements provide both long-term and short-term information about DTC's overall financial status. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of other supplementary information that further explains and supports the information in the financial statements.

DTC's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units on an accrual basis. Under this basis, revenues are recognized in the period in which they are earned, expenses are recognized in the period in which they are incurred, and depreciation of assets is recognized in the statements of revenues, expenses, and change in net assets. All assets and liabilities associated with the operation of DTC are included in the balance sheets.

Financial Analysis of DTC

Balance Sheets

Total assets increased 6.3% to \$99.8 million due to the purchase of replacement vehicles and facility expansion. Total liabilities decreased 13.2% to \$11.2 million mostly due to a reduction in accounts payable during the current year. Total net assets at June 30, 2005 are approximately \$88.6 million, a 9.5% increase from June 30, 2004.

Delaware Transit Corporation's Net Assets (in millions of dollars)

	<u>2005</u>	<u>2004</u>	<u>Percentage Change 2005-2004</u>
Current assets	\$20.0	\$19.2	3.6
Capital assets	<u>79.8</u>	<u>74.6</u>	7.0
Total assets	99.8	93.8	6.3
Current liabilities	8.0	9.6	(16.7)
Noncurrent liabilities	<u>3.2</u>	<u>3.3</u>	(3.0)
Total liabilities	11.2	12.9	(13.2)
Net assets			
Invested in capital assets - net of related debt	79.8	74.6	6.9
Unrestricted	<u>8.8</u>	<u>6.3</u>	39.7
Total net assets	<u>\$88.6</u>	<u>\$80.9</u>	9.5

Delaware Transit Corporation

Management's Discussion and Analysis (Continued)

The increase in current assets is primarily attributable to an increase in inventories and an increase in cash and cash equivalents. The \$5.1 million increase in cash is due to increased nonoperating revenues and capital contributions, as well as collection of capital and operating subsidy receivables. Capital assets increased due to purchase of revenue and service vehicles and the opening of new facilities. The decrease in total liabilities is due to a change in estimate of the insurance loss contingency for automobile policies and a decrease in trade payables. The large increase in unrestricted assets is the result of operating efficiencies and the revaluation of insurance liabilities.

Change in Net Assets

The increase in net assets as of June 30, 2005 was approximately \$7.7 million, which equates to an increase in net assets of 9.5% over 2004. DTC's total operating revenues decreased by 2.6% to approximately \$11.2 million, and total operating expenses increased 3.9% to approximately \$80.4 million.

Change in the Delaware Transit Corporation's Net Assets (in millions of dollars)

	<u>2005</u>	<u>2004</u>	<u>Percentage Change 2005-2004</u>
Operating revenues			
Passenger revenue	\$ 9.3	\$ 8.9	4.5
Other operating revenue	<u>1.9</u>	<u>2.6</u>	(26.9)
Total operating revenues	11.2	11.5	(2.6)
Operating expenses			
Total operating expenses before depreciation and retirements of property and equipment	69.3	63.4	9.3
Depreciation and net loss on retirements of property and equipment	<u>11.1</u>	<u>14.0</u>	(20.7)
Total operating expenses	<u>80.4</u>	<u>77.4</u>	3.9
Operating loss	(69.2)	(65.9)	5.0
Nonoperating revenues, net	60.5	55.8	8.4
Capital contributions	<u>16.4</u>	<u>7.7</u>	113.0
Change in net assets	7.7	(2.4)	220.8
Total net assets - beginning of year	<u>80.9</u>	<u>83.3</u>	2.9
Total net assets - end of year	\$ <u>88.6</u>	\$ <u>80.9</u>	9.5

Delaware Transit Corporation

Management's Discussion and Analysis (Continued)

The increase in passenger fare revenues is attributable to increased ridership from normal operations along with park-and-ride service for the Dover Downs NASCAR race event. Other operating revenue decreased due to the effect from the change in estimate relating to the insurance loss contingency.

The increase in operating expenses over 2004 is due to the increased costs relating to automobile and general liability insurance, purchase of transportation services for rail and Paratransit, cost of diesel fuel, and changes in the collective bargaining agreements.

The decrease in depreciation and retirements of property and equipment relates primarily to the nonrecurring transfer of computers and computer equipment during 2004.

The increase in nonoperating revenues, net, is attributable to increases in funding for operating assistance received from the State of Delaware.

Capital Assets

As of June 30, 2005, DTC had approximately \$137.1 million invested in capital assets, which includes land, buildings, vehicles, communication and support equipment, and furniture and fixtures. Net of accumulated depreciation, DTC's capital assets at June 30, 2005 totaled approximately \$79.8 million. This amount represents a net increase (including additions and disposals, net of depreciation) of approximately \$5.2 million or 7% compared to June 30, 2004.

DTC purchased 52 buses (cut-a-ways), eight transit buses, and two trolleys consistent with the vehicle replacement and expansion schedule. DTC completed construction of the Mid-County facility, performed improvements to the Georgetown facility, and began preliminary site work for the Wilmington Transit facility. Upgrades were done to communication equipment.

Assets disposed of during 2005 totaled \$3.9 million. Disposals related primarily to the replacement of revenue vehicles and service vehicles.

Delaware Transit Corporation

Management's Discussion and Analysis (Continued)

Economic Factors and Next Year's Budget

The Delaware economy is forecasted to continue to grow in 2006 especially in the employment and service sector. During 2005, the Governor and the General Assembly authorized an increase in compensation for all State employees. The average increase was 5%. Based on the improved revenue forecast, the 2006 transportation budget has been increased 6.7% over 2005. The rising cost of diesel fuel is the single most important element within the 2006 operating budget. The 2006 price forecast for diesel fuel is 80% above the 2006 budget and will present a financial challenge. Transportation, being a vital part of the Delaware economy, continues to receive operating funding for all services in 2006 and capital investment in transportation vehicles, facilities, and other transportation infrastructure.

Contacting DTC's Financial Management

This financial report is designed to provide interested parties with a general overview of DTC's finances and to demonstrate DTC's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Delaware Transit Corporation, 900 Public Safety Boulevard, Dover, DE 19901.



Independent Auditors' Report

Delaware Transit Corporation
Dover, Delaware

We have audited the accompanying financial statements of the business-type activities of Delaware Transit Corporation as of and for the years ended June 30, 2005 and 2004, as listed in the table of contents. These financial statements are the responsibility of Delaware Transit Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note A, the financial statements of Delaware Transit Corporation are intended to present the financial position, and the changes in financial position and cash flows, of only that portion of the business-type activities that is attributable to the transactions of Delaware Transit Corporation. They do not purport to, and do not, present fairly the financial position of the State of Delaware as of June 30, 2005 and 2004, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

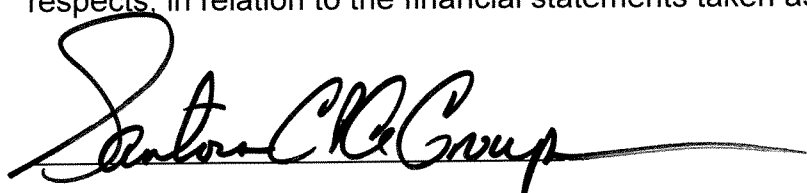
In our opinion, based on our audits, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities for Delaware Transit Corporation as of June 30, 2005 and 2004, and the respective changes in financial position and cash flows thereof for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Delaware Transit Corporation

In accordance with *Government Auditing Standards*, we have also issued our report dated August 17, 2005, on our consideration of Delaware Transit Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

Management's discussion and analysis on pages 3 through 7 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures that consisted primarily of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the financial statements of Delaware Transit Corporation. The additional information presented in the schedule of revenues and expenses compared to budget and the schedules of expenses by mode are presented for purposes of additional analysis and are not a required part of the financial statements. Such information, except for that portion marked "budget," which is unaudited and upon which we express no opinion or any other form of assurance, has been subjected to the auditing procedures applied in the audits of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

A handwritten signature in black ink, appearing to read "Antonio C. R. Group", with a long horizontal flourish extending to the right.

August 17, 2005
Newark, Delaware

June 30, 2005 and 2004

See notes to financial statements.

Delaware Transit Corporation
Statements of Revenues, Expenses, and Change in Net Assets
For the Years Ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
OPERATING REVENUES		
Passenger fares	\$ 9,323,392	\$ 8,938,031
Advertising	308,875	339,525
Miscellaneous	660,351	261,517
Loss contingency insurance recoveries	404,691	1,454,928
Auxiliary transportation	<u>500,894</u>	<u>536,395</u>
Total operating revenues	11,198,203	11,530,396
OPERATING EXPENSES		
Vehicle operations	41,815,080	37,225,541
Maintenance		
Vehicle	7,881,193	7,257,259
Nonvehicle	2,615,302	2,151,378
General administration	<u>17,022,167</u>	<u>16,823,692</u>
Total operating expenses before depreciation	69,333,742	63,457,870
Depreciation and net loss on retirements of property and equipment	<u>11,119,348</u>	<u>14,020,627</u>
Total operating expenses	<u>80,453,090</u>	<u>77,478,497</u>
OPERATING LOSS	(69,254,887)	(65,948,101)
NONOPERATING REVENUES (EXPENSES)		
Operating assistance		
Federal	4,056,343	3,844,195
State	56,300,800	51,958,500
Pass-through revenue		
Federal	2,000	1,001,596
State	326,986	13,513,595
Pass-through expense		
Federal	(2,000)	(1,081,148)
State	(408,309)	(13,513,595)
Investment income	<u>231,203</u>	<u>28,608</u>
Excess of nonoperating revenues over expenses	<u>60,507,023</u>	<u>55,751,751</u>

Continued...

Delaware Transit Corporation
Statements of Revenues, Expenses, and Change in Net Assets (Continued)
For the Years Ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
LOSS BEFORE CONTRIBUTIONS	\$ (8,747,864)	\$ (10,196,350)
CAPITAL CONTRIBUTIONS	<u>16,425,711</u>	<u>7,751,485</u>
CHANGE IN NET ASSETS	7,677,847	(2,444,865)
TOTAL NET ASSETS - BEGINNING OF YEAR	<u>80,872,679</u>	<u>83,317,544</u>
TOTAL NET ASSETS - END OF YEAR	<u><u>\$ 88,550,526</u></u>	<u><u>\$ 80,872,679</u></u>

See notes to financial statements.

Delaware Transit Corporation

Statements of Cash Flows

For the Years Ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from passengers	\$ 9,468,168	\$ 9,404,142
Payments to suppliers	(31,356,718)	(26,483,378)
Payments to employees	(37,187,732)	(33,754,525)
Insurance claims paid	(2,711,371)	(3,271,158)
Other receipts	<u>1,470,120</u>	<u>1,137,437</u>
Net cash used in operating activities	(60,317,533)	(52,967,482)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITY		
Operating subsidies	<u>63,027,873</u>	<u>56,447,814</u>
Net cash provided by noncapital financing activity	63,027,873	56,447,814
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from capital grants	18,400,704	6,267,741
Acquisition of capital assets	(16,437,689)	(8,205,106)
Proceeds from sale of equipment	<u>169,372</u>	<u>107,874</u>
Net cash provided by (used in) capital and related financing activities	2,132,387	(1,829,491)
CASH FLOWS FROM INVESTING ACTIVITY		
Interest income received	<u>231,203</u>	<u>28,608</u>
Net cash provided by investing activity	<u>231,203</u>	<u>28,608</u>
Net increase in cash and cash equivalents	5,073,930	1,679,449
CASH AND CASH EQUIVALENTS - BEGINNING	<u>11,305,881</u>	<u>9,626,432</u>
CASH AND CASH EQUIVALENTS - ENDING	<u>\$ 16,379,811</u>	<u>\$ 11,305,881</u>

Continued...

Delaware Transit Corporation
Statements of Cash Flows (Continued)
For the Years Ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES		
Operating loss	\$ (69,254,887)	\$ (65,948,101)
Adjustments to reconcile operating loss to net cash used in operating activities		
Depreciation and net loss on retirements of property and equipment	11,119,348	14,020,627
Changes in assets and liabilities		
Decrease in accounts receivable	20,898	360,209
Increase in inventories	(445,186)	(168,592)
Increase in prepaid expenses	(5,146)	(71,905)
Increase (decrease) in accounts payable	(1,831,119)	620,442
Decrease in loss contingency insurance	(228,847)	(1,953,421)
Increase (decrease) in compensated absences	47,930	(187,215)
Increase in accrued payroll and related expenses	259,476	360,474
	<hr/>	<hr/>
Net cash used in operating activities	<u><u>\$ (60,317,533)</u></u>	<u><u>\$ (52,967,482)</u></u>

See notes to financial statements.

Delaware Transit Corporation

Notes to Financial Statements

Note A - Authorizing Legislation

Pursuant to Title 2 of the Delaware Code, Sections 1304(a) and 1307(a) as enacted by 69 Delaware Law Chapter 435, Delaware Transit Corporation (DTC) was created in fiscal year 1995 as a subsidiary public corporation of the Delaware Transportation Authority (the Authority). DTC is authorized to operate the public transportation system within the State of Delaware (the State).

The Authority is an independent operating arm of the Delaware Department of Transportation (DelDOT) and a body corporate and politic, constituting a public instrumentality of the State. The Authority was created in 1976 and later reorganized in 1979 by the Enabling Act. The Authority was created to foster the planning and financing of an economical, comprehensive, and integrated system of air, water, vehicular, public, and specialized transportation for the benefit of all people of the State.

Note B - Significant Accounting Policies

1. Reporting Entity

DTC is a subsidiary public corporation of the Authority. As a result of the Authority's relationship with the State, DTC's financial statements are included in the comprehensive annual financial report of the State in accordance with accounting principles generally accepted in the United States of America.

2. Basis of Accounting

DTC operates as an enterprise fund. The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned, and expenses are recorded at the time liabilities are incurred regardless of the timing of the related cash flows.

3. Cash and Cash Equivalents

Cash and cash equivalents consist of demand and time deposits and securities with an original maturity of three months or less when purchased.

Delaware Transit Corporation

Notes to Financial Statements (Continued)

Note B - Significant Accounting Policies (Continued)

3. Cash and Cash Equivalents (Continued)

Included in cash at June 30, 2005 and 2004 is \$3,501,974 and \$3,730,821, respectively, reserves for insurance loss deductibles. The insurance loss deductibles are associated with workers' compensation and automobile insurance policies for various years (see Note L).

4. Inventories

Inventories are accounted for at the lower of cost or market. Cost is determined using the average cost method.

5. Capital Assets

Capital assets, which include land, buildings, vehicles, equipment, furniture and fixtures, and bus signs and shelters are defined by DTC as all assets purchased with State and federal grant money as well as any asset with a cost greater than \$5,000 purchased with operating money. Capital assets are recorded at cost. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Buildings, vehicles, equipment, furniture and fixtures, and bus signs and shelters are depreciated using the straight-line method over the following estimated useful lives:

Buildings	10 - 40 years
Revenue vehicles	4 - 12 years
Service vehicles and equipment	3 - 4 years
Communication equipment	5 - 12 years
Furniture and fixtures	3 - 10 years
Bus signs and shelters	10 years

6. Compensated Absences

Substantially all employees receive compensation for vacations, illness, and certain other qualifying absences. The number of days compensated in the various categories of absence is based generally on length of service. Compensated absences, which have been earned but not paid, have been recorded in the accompanying financial statements.

Delaware Transit Corporation
Notes to Financial Statements (Continued)

Note B - Significant Accounting Policies (Continued)

7. Customer Fares

Customer fares are recorded as revenue at the time services are purchased by passengers.

8. Allowance for Uncollectible Accounts

Management charges income with doubtful accounts when they are considered uncollectible. At June 30, 2005 and 2004, there was no allowance for doubtful accounts.

9. Management Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

10. Revenues and Expenses

DTC defines nonoperating revenues as federal and State operating subsidies, pass-through grant revenue, and investment income. All other revenues are derived from the normal operations of DTC. Nonoperating expenses are defined as pass-through grant expense. All other expenses are a result of normal operations.

11. Financial Accounting Standards Board (FASB) Pronouncements

DTC has elected not to apply FASB pronouncements issued after November 30, 1989.

Delaware Transit Corporation

Notes to Financial Statements (Continued)

Note B - Significant Accounting Policies (Continued)

12. Changes in Accounting Principles

DTC adopted the provisions of GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, in fiscal year 2005. GASB Statement No. 40 establishes and modifies certain financial statement note disclosure requirements to make the financial statements more useful. GASB Statement No. 40 had an impact on the presentation of the notes to the financial statements but no impact on net assets.

Note C - Cash and Investments

Cash Management Policy

DTC follows the guidelines and requirements issued and adopted by the Cash Management Policy Board of the State. The Policy is available on the Internet at www.state.de.us/treasure.

Custodial Credit Risk

Deposits - All deposits are in a variety of financial institutions and are carried at cost, which approximates market value. The carrying amount of DTC's deposits at June 30, 2005 and 2004 were \$16,379,811 and \$11,305,881, respectively, and the bank balances were \$16,931,376 and \$11,423,896, respectively. The differences between bank balances and carrying amounts resulted from outstanding checks and deposits in transit. The entire bank balances at June 30, 2005 and 2004 of \$16,931,376 and \$11,423,896, respectively, were covered by federal depository insurance for \$104,479 and \$104,236, respectively, and by collateral held by DTC's Trustee, in DTC's name, for the remainder.

Delaware Transit Corporation

Notes to Financial Statements (Continued)

Note D - Capital Assets

Capital asset activity for the year ended June 30, 2005 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated				
Land	\$ 1,872,536	\$ -	\$ -	\$ 1,872,536
Construction in progress	<u>1,866,892</u>	<u>392,389</u>	<u>(1,866,892)</u>	<u>392,389</u>
Total capital assets not being depreciated	3,739,428	392,389	(1,866,892)	2,264,925
Capital assets being depreciated				
Buildings	33,995,487	9,271,995	-	43,267,482
Revenue vehicles	63,515,440	7,599,427	(3,087,413)	68,027,454
Service vehicles and equipment	4,542,324	566,891	(538,013)	4,571,202
Communication equipment	15,180,679	335,766	-	15,516,445
Furniture and fixtures	727,505	60,364	(249,233)	538,636
Bus signs and shelters	<u>2,906,077</u>	<u>77,748</u>	<u>(49,556)</u>	<u>2,934,269</u>
	120,867,512	17,912,191	(3,924,215)	134,855,488
Less: accumulated depreciation				
Buildings	10,101,916	1,191,347	-	11,293,263
Revenue vehicles	29,223,673	7,624,067	(3,005,689)	33,842,051
Service vehicles and equipment	3,265,077	426,241	(518,737)	3,172,581
Communication equipment	5,645,389	1,549,824	-	7,195,213
Furniture and fixtures	269,882	51,041	(189,915)	131,008
Bus signs and shelters	<u>1,527,685</u>	<u>218,757</u>	<u>(28,973)</u>	<u>1,717,469</u>
	<u>50,033,622</u>	<u>11,061,277</u>	<u>(3,743,314)</u>	<u>57,351,585</u>
Total capital assets being depreciated, net	<u>70,833,890</u>	<u>6,850,914</u>	<u>(180,901)</u>	<u>77,503,903</u>
Total capital assets, net	<u>\$ 74,573,318</u>	<u>\$ 7,243,303</u>	<u>\$ (2,047,793)</u>	<u>\$ 79,768,828</u>

Delaware Transit Corporation
Notes to Financial Statements (Continued)

Note D - Capital Assets (Continued)

Capital asset activity for the year ended June 30, 2004 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated				
Land	\$ 1,872,536	\$ -	\$ -	\$ 1,872,536
Construction in progress	<u>-</u>	<u>1,866,892</u>	<u>-</u>	<u>1,866,892</u>
Total capital assets not being depreciated	1,872,536	1,866,892	-	3,739,428
Capital assets being depreciated				
Buildings	34,418,194	2,931,492	(3,354,199)	33,995,487
Revenue vehicles	63,550,728	2,697,606	(2,732,894)	63,515,440
Service vehicles and equipment	5,126,397	83,157	(667,230)	4,542,324
Communication equipment	15,089,703	387,563	(296,587)	15,180,679
Furniture and fixtures	8,202,484	27,048	(7,502,027)	727,505
Bus signs and shelters	<u>2,728,671</u>	<u>211,348</u>	<u>(33,942)</u>	<u>2,906,077</u>
	129,116,177	6,338,214	(14,586,879)	120,867,512
Less: accumulated depreciation				
Buildings	10,627,591	1,118,048	(1,643,723)	10,101,916
Revenue vehicles	24,224,189	7,672,024	(2,672,540)	29,223,673
Service vehicles and equipment	3,291,479	411,441	(437,843)	3,265,077
Communication equipment	4,345,703	1,521,962	(222,276)	5,645,389
Furniture and fixtures	6,231,066	232,578	(6,193,762)	269,882
Bus signs and shelters	<u>1,329,064</u>	<u>225,213</u>	<u>(26,592)</u>	<u>1,527,685</u>
	50,049,092	11,181,266	(11,196,736)	50,033,622
Total capital assets being depreciated, net	<u>79,067,085</u>	<u>(4,843,052)</u>	<u>(3,390,143)</u>	<u>70,833,890</u>
Total capital assets, net	<u>\$ 80,939,621</u>	<u>\$ (2,976,160)</u>	<u>\$ (3,390,143)</u>	<u>\$ 74,573,318</u>

Depreciation expense for fiscal years 2005 and 2004 was \$11,061,277 and \$11,181,266, respectively.

Note E - Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2005 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Compensated absences	\$2,183,665	\$ 47,930	\$ -	\$2,231,595	\$ 226,557
Contingency - insurance loss	<u>3,730,821</u>	<u>3,486,738</u>	<u>(3,715,585)</u>	<u>3,501,974</u>	<u>2,302,132</u>
Long-term liabilities	<u>\$5,914,486</u>	<u>\$3,534,668</u>	<u>\$(3,715,585)</u>	<u>\$5,733,569</u>	<u>\$2,528,689</u>

Delaware Transit Corporation
Notes to Financial Statements (Continued)

Note E - Long-Term Liabilities (Continued)

Long-term liability activity for the year ended June 30, 2004 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Compensated absences	\$2,370,880	\$ -	\$ (187,215)	\$2,183,665	\$ 401,229
Contingency - insurance loss	<u>5,684,242</u>	<u>2,926,605</u>	<u>(4,880,026)</u>	<u>3,730,821</u>	<u>2,224,473</u>
Long-term liabilities	<u>\$8,055,122</u>	<u>\$2,926,605</u>	<u>\$(5,067,241)</u>	<u>\$5,914,486</u>	<u>\$2,625,702</u>

Note F - Union Contracts

Operators and maintenance personnel of the North District Fixed Route system are represented by the Amalgamated Transit Union AFL-CIO, Local 842. The term of the current Collective Bargaining Agreement covers the period starting March 1, 2002 through November 30, 2007.

Paratransit operators statewide and South District Fixed Route operators are also represented by the Amalgamated Transit Union AFL-CIO, Local 842, under a separate Collective Bargaining Agreement. The term of the current Collective Bargaining Agreement covers the period July 1, 2003 through June 30, 2008.

Certain administrative, operations, and maintenance personnel are represented by the Office and Professional Employee International Union, Local 32, AFL-CIO. The term of the Collective Bargaining Agreement is from January 1, 2002 through December 31, 2006.

Note G - Defined Benefit Pension Plans

Plan Descriptions

DTC contributes to two single-employer defined benefit pension plans: the Delaware Transit Corporation Pension Plan, with participation limited to full-time, nonunion salaried employees; and the Contributory Pension Plan, for all full-time members of Local #842 Amalgamated Transit Union and Local #32, Office and Professional Employee International Union. Each plan provides retirement, disability, and death benefits to plan members and beneficiaries. Each plan issues a publicly available financial report that includes financial statements and required supplementary information. Those reports may be obtained by writing or calling DTC at its Dover offices.

Delaware Transit Corporation

Notes to Financial Statements (Continued)

Note G - Defined Benefit Pension Plans (Continued)

Funding Policy and Annual Pension Cost

The trustees of each plan establish and may amend the contribution requirements of plan members and DTC. The most recent information available for DTC's annual pension cost and related information for each plan is as follows:

	<u>DTC Pension Plan</u>	<u>Contributory Pension Plan</u>
Contribution rates:		
Employer	**	5.00%
Participants	N/A	5.00%
Annual pension cost	\$612,886	\$601,299
Contributions made	\$763,558	\$916,604
Actuarial valuation date	7/01/04	1/01/04
Actuarial cost method	Frozen Initial Liability	N/A
Remaining amortization period	21	17
Asset valuation method	Market	Market
Actuarial assumptions:		
Investment rate of return	7.50%	7.00%
Projected salary increases	4.50%	4.00%

(Note: ** = Actuarially Determined and N/A = Not Applicable)

Three-Year Trend Information

	<u>Plan Year Ended</u>	<u>Contribution Made</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
DTC Pension Plan	06/30/2003	\$545,328	\$693,100	78.68%	\$ -
	06/30/2004	820,350	749,796	109.41%	-
	06/30/2005	763,558	612,886	124.58%	-
Contributory Plan	12/31/2002	346,939	563,584	61.56%	-
	12/31/2003	548,215	913,947	59.98%	-
	12/31/2004	916,604	601,299	152.44%	-

Delaware Transit Corporation
Notes to Financial Statements (Continued)

Note G - Defined Benefit Pension Plans (Continued)

Schedules of Funding Progress

DTC Pension Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Excess (Deficit) of Assets Over AAL (a - b)	Funded Ratio (a/b)	Covered Payroll (c)	Excess (Deficit) as a Percentage of Covered Payroll ((a - b)/c)
07/01/2002	\$4,355,464	\$4,727,035	\$(371,571)	92.14%	\$7,690,602	(4.83)%
07/01/2003	5,187,005	5,536,310	(349,305)	93.69%	8,120,967	(4.30)%
07/01/2004	6,450,349	6,874,823	(424,474)	93.83%	7,350,742	(5.77)%

Contributory Pension Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Excess (Deficit) of Assets Over AAL (a - b)	Funded Ratio (a/b)	Covered Payroll (c)	Excess (Deficit) as a Percentage of Covered Payroll ((a - b)/c)
01/01/2003	\$14,914,835	\$18,110,449	\$(3,195,614)	82.35%	\$16,185,321	(19.74)%
01/01/2004	17,654,095	18,866,345	(1,212,250)	93.57%	14,478,473	(8.37)%
01/01/2005	20,266,978	20,670,312	(403,334)	98.05%	14,580,133	(2.77)%

Note H - Post-Retirement Health Care Benefits

The State provides post-retirement health care benefits, in accordance with State statutes, to all employees who retire from the State after meeting the eligibility requirements.

Note I - Operating Leases

DTC has several noncancellable operating leases, primarily for operation and maintenance facilities, which expire at various times through June 29, 2020. Those leases require DTC to pay for maintenance and liability insurance costs. Rental expenses were \$20,429 and \$21,953 for the years ended June 30, 2005 and 2004, respectively.

Future minimum lease payments under operating leases that have remaining terms in excess of one year as of June 30, 2005 are:

Delaware Transit Corporation

Notes to Financial Statements (Continued)

Note I - Operating Leases (Continued)

2006	\$13,054
2007	6,650
2008	3,000
2009	1,800
2010	1,800
2011 - 2015	9,000
2016 - 2020	<u>9,000</u>
	<u>\$44,304</u>

DTC has an operating lease agreement for transit vehicle tires, which will expire on April 30, 2006. The lease agreement requires DTC to make monthly payments based on miles driven multiplied by a mileage rate as set forth in the agreement. The mileage rate is based on contract year and estimated annual vehicle miles. For the years ended June 30, 2005 and 2004, DTC incurred expenses related to this lease of \$126,976 and \$124,477, respectively.

Note J - Economic Dependency

DTC's revenue from operating subsidies from the State was approximately 78% and 77% of total revenue for the years ended June 30, 2005 and 2004, respectively.

Note K - Commitments and Contingencies

Litigation

DTC is involved in various legal actions arising in the normal course of business. In the opinion of management, such matters will not have a material effect upon the financial position of DTC.

Note L - Risk Management

Workers' Compensation Insurance

DTC maintains coverage for workers' compensation benefits. DTC manages the coverage through both the retention of risk and the purchase of commercial insurance. The payment of workers' compensation claims is processed through a third-party administrator.

Delaware Transit Corporation

Notes to Financial Statements (Continued)

Note L - Risk Management (Continued)

Workers' Compensation Insurance (Continued)

For years prior to 2003, DTC would establish a workers' compensation loss contingency reserve based upon the insurance carriers' actuarial reviews. Benefit claims in an amount of \$100,000 or less per person, per coverage year are paid from the workers' compensation loss contingency reserve. Once any claim exceeds \$100,000 or total claims for a given policy period exceed the maximum loss amount, the insurance policy covers the excess.

For fiscal year 2003, DTC changed its coverage to a first dollar program. Also, all claims were subject to a \$5,000 deductible for the medical portion of a claim. All other expenses related to a claim are covered by the insurance carrier. DTC established an initial loss contingency reserve in 2003 of \$200,000 to cover the deductibles for estimated future medical claims.

Subsequent to fiscal year 2003, DTC changed its coverage and was insured through the State of Delaware. Under the State program, DTC pays a premium calculated as \$7.48 per \$100 of payroll. DTC is not responsible for any costs other than the premium paid, thus no loss contingency reserves are established.

Auto Insurance

DTC maintains auto insurance coverage through both the retention of risk and the purchase of commercial insurance. Auto loss contingency reserves that are based upon actuarial reviews were established by DTC.

For years prior to 2003, DTC would establish auto loss contingency reserves based upon insurance carriers' actuarial reviews. Individual claims in an amount of \$100,000 or less per incident, per coverage year were paid from the auto loss contingency reserve. Once a specific claim exceeds \$100,000 or total claims for a given policy period exceed the maximum loss amount established by the insurance carrier, the insurance policy covers the excess.

Delaware Transit Corporation

Notes to Financial Statements (Continued)

Note L - Risk Management (Continued)

Auto Insurance (Continued)

For 2003 and subsequent years, DTC changed its auto insurance coverage whereby they established self-insured retention thresholds up to certain dollar amounts and purchased commercial insurance (wrap-around) policies for amount coverage in excess of the self-insured retention thresholds. DTC established initial loss contingency reserves for each of the years based upon actuarial reviews only considering the \$300,000 sovereign immunity cap pursuant to Title 2 of the Delaware Code, Subsection 1329.

	Initial Loss Contingency Reserve <u>Established</u>	Self-Insured Retention <u>Threshold</u>	Excess Commercial <u>Coverage</u>
2003	\$2,561,000	\$1,300,000	\$10,000,000
2004	2,666,763	1,300,000	6,000,000
2005	2,763,367	2,300,000	5,000,000

The components of the remaining insurance loss contingency reserve on DTC's balance sheets were as follows at June 30,:

	<u>2005</u>	<u>2004</u>
Workers' compensation loss contingency reserve remaining for fiscal year 2003	\$ 153,172	\$ 153,173
Workers' compensation loss contingency reserve remaining for fiscal year 2002	206,521	381,708
Workers' compensation loss contingency reserve remaining for fiscal year 2001	12,895	367,346
Workers' compensation loss contingency reserve remaining for fiscal year 2000	-	10,022
Workers' compensation loss contingency reserve remaining for fiscal year 1999	-	101,809
Auto loss contingency reserve remaining for fiscal year 2005	2,036,636	-
Auto loss contingency reserve remaining for fiscal year 2004	864,769	1,399,775

Delaware Transit Corporation
Notes to Financial Statements (Continued)

Note L - Risk Management (Continued)

	<u>2005</u>	<u>2004</u>
Auto loss contingency reserve remaining for fiscal year 2003	\$ 227,981	\$ 578,495
Auto loss contingency reserve remaining for fiscal year 2002	-	312,680
Auto loss contingency reserve remaining for fiscal year 2001	-	425,813
Auto loss contingency reserve remaining for fiscal year 2000	-	-
	<u>\$3,501,974</u>	<u>\$3,730,821</u>

Changes in the balances of total claim liabilities during fiscal years 2005 and 2004 were as follows:

<u>Fiscal Year</u>	<u>Beginning Balance July 1</u>	<u>Current Year Estimated Claims and Changes in Estimates</u>	<u>Actual Claim Payments</u>	<u>Ending Balance June 30</u>
2004	\$5,684,242	\$1,471,677	\$(3,425,098)	\$3,730,821
2005	\$3,730,821	\$2,482,549	\$(2,711,396)	\$3,501,974

Note M - Designated Net Assets

Unrestricted net assets designated by management are as follows for the fiscal years ended June 30,:

	<u>2005</u>	<u>2004</u>
Designated as working capital reserve for operations	\$6,064,756	\$4,844,433
Designated as reserve for self insurance	<u>2,716,942</u>	<u>1,454,928</u>
Total unrestricted net assets designated by management	<u>\$8,781,698</u>	<u>\$6,299,361</u>

Delaware Transit Corporation

Notes to Financial Statements (Continued)

Note M - Designated Net Assets (Continued)

Management has determined that DTC needs an appropriate working capital reserve of approximately 1½ months of operating expenses before depreciation in order to ensure that DTC's financial obligations can be met timely without disruption. This is based on the fact that DTC does not have external bank credit facilities that it can rely on and timing issues that may arise with the receipt of State operating subsidy revenues.

Management has designated a portion of unrestricted net assets for an additional insurance loss reserve for self insurance. In fiscal years 2003 and 2004, DTC established Self-Insured Retention (SIR) for the first \$300,000 per occurrence. The SIR limitation is consistent with the \$300,000 sovereign immunity cap pursuant to Title 2 of the Delaware Code, Sub Section 1329. For cases above the cap that are not protected under Title 2 of the Delaware Code, Sub Section 1329 that might involve gross negligence, travel outside the State, or Americans with Disabilities Act issues, DTC self insured the first \$1,300,000 per occurrence for fiscal years 2003 and 2004. In fiscal year 2005, DTC raised the limit of the SIR to \$2,300,000 per occurrence. As indicated in Note L - Risk Management, DTC's accrued liabilities for auto insurance loss contingencies only factor in their exposure relating to the first \$300,000 per occurrence.

Note N - Pass-Through Revenue and Expenses

During the fiscal year ended June 30, 2004, DTC acted as a financial intermediary between DeIDOT and Norfolk Southern Railway Company (Norfolk Southern) on a project to rehabilitate the Shellpot Railroad Line. DTC physically paid Norfolk Southern for work performed and was subsequently reimbursed by DeIDOT. As the railroad line being rehabilitated is not owned by DTC, the revenues and expenses related to the project have been shown as pass-through revenue and expenses of \$12,314,768 in the statements of revenues, expenses, and change in net assets, and no asset has been recorded in the financial statements.

The remaining portion of pass-through revenue and expenses for the years ended June 30, 2005 and 2004 relates to transportation improvement programs funded by DTC.

Delaware Transit Corporation

Notes to Financial Statements (Continued)

Note O - Advertising

Advertising costs are charged to operations when incurred. Total advertising costs of \$645,858 and \$704,982 were incurred for the years ended June 30, 2005 and 2004, respectively.

Additional Information

Delaware Transit Corporation
Schedule of Revenues and Expenses
Compared to Budget

For the Year Ended June 30, 2005

	Budget (Unaudited)	Actual	Favorable (Unfavorable)
OPERATING REVENUES			
Passenger fares	\$ 9,625,700	\$ 9,323,392	\$ (302,308)
Advertising	300,000	308,875	8,875
Miscellaneous	100,000	660,351	560,351
Insurance recoveries	-	404,691	404,691
Auxiliary transportation	300,000	500,894	200,894
Total operating revenues	10,325,700	11,198,203	872,503
OPERATING EXPENSES	70,212,466	69,333,742	878,724
OPERATING EXPENSES IN EXCESS OF OPERATING REVENUES	(59,886,766)	(58,135,539)	1,751,227
NONOPERATING REVENUES (EXPENSES)			
Operating assistance			
Federal	3,563,366	4,056,343	492,977
State	56,300,800	56,300,800	-
Pass-through grant revenue			
Federal	309,600	2,000	(307,600)
State	-	326,986	326,986
Secondary recipient capital and operating grant expense			
Federal	(387,000)	(2,000)	385,000
State	-	(408,309)	(408,309)
Investment income	100,000	231,203	131,203
Excess of nonoperating revenues over expenses	59,886,766	60,507,023	620,257
INCOME BEFORE CONTRIBUTIONS AND DEPRECIATION AND RETIREMENTS ON PROPERTY AND EQUIPMENT	\$ -	\$ 2,371,484	\$ 2,371,484

Delaware Transit Corporation

Schedule of Expenses by Mode - All Modes

For the Year Ended June 30, 2005

	<u>Vehicle Operations</u>	<u>Vehicle Maintenance</u>	<u>Nonvehicle Maintenance</u>	<u>General Administration</u>	<u>Totals</u>
LABOR					
Operator salaries	\$ 15,578,292	\$ -	\$ -	\$ -	\$ 15,578,292
Other salaries	2,338,421	3,167,472	353,586	5,130,372	10,989,851
	<u>17,916,713</u>	<u>3,167,472</u>	<u>353,586</u>	<u>5,130,372</u>	<u>26,568,143</u>
FRINGE BENEFITS	10,299,388	1,950,387	243,918	3,387,541	15,881,234
SERVICES					
Professional and technical	32,988	-	132,246	2,325,478	2,490,712
Contract and maintenance	-	730,459	1,111,047	5,081	1,846,587
Security	-	-	3,240	410,887	414,127
Other	23,940	8,520	20,089	296,156	348,705
	<u>56,928</u>	<u>738,979</u>	<u>1,266,622</u>	<u>3,037,602</u>	<u>5,100,131</u>
MATERIALS AND SUPPLIES					
Fuel and lubes	3,453,696	58,620	-	-	3,512,316
Tires and tubes	278,501	2,726	-	-	281,227
Other materials	126,655	1,747,394	102,533	417,078	2,393,660
	<u>3,858,852</u>	<u>1,808,740</u>	<u>102,533</u>	<u>417,078</u>	<u>6,187,203</u>
UTILITIES	-	-	564,604	-	564,604
INSURANCE	-	-	-	3,620,374	3,620,374
PURCHASED TRANSPORTATION	9,682,871	215,041	-	-	9,897,912
MISCELLANEOUS EXPENSES					
Dues and subscriptions	-	569	-	82,997	83,566
Travel and meetings	328	5	-	510,171	510,504
Advertising	-	-	-	691,628	691,628
Facilities	-	-	84,039	-	84,039
Other	-	-	-	144,404	144,404
	<u>328</u>	<u>574</u>	<u>84,039</u>	<u>1,429,200</u>	<u>1,514,141</u>
TOTAL EXPENSES	<u>\$ 41,815,080</u>	<u>\$ 7,881,193</u>	<u>\$ 2,615,302</u>	<u>\$ 17,022,167</u>	<u>\$ 69,333,742</u>

Delaware Transit Corporation

Schedule of Expenses by Mode - Fixed Route Directly Operated

For the Year Ended June 30, 2005

	Vehicle Operations	Vehicle Maintenance	Nonvehicle Maintenance	General Administration	Totals
LABOR					
Operator salaries	\$ 8,542,240	\$ -	\$ -	\$ -	\$ 8,542,240
Other salaries	1,104,500	2,313,633	124,625	2,106,407	5,649,165
	<u>9,646,740</u>	<u>2,313,633</u>	<u>124,625</u>	<u>2,106,407</u>	<u>14,191,405</u>
FRINGE BENEFITS	5,050,194	1,316,982	67,417	1,223,114	7,657,707
SERVICES					
Professional and technical	14,475	-	59,511	1,025,453	1,099,439
Contract and maintenance	-	340,340	414,598	4,675	759,613
Security	-	-	1,458	184,900	186,358
Other	11,730	4,628	9,039	162,990	188,387
	<u>26,205</u>	<u>344,968</u>	<u>484,606</u>	<u>1,378,018</u>	<u>2,233,797</u>
MATERIALS AND SUPPLIES					
Fuel and lubes	2,243,045	23,100	-	-	2,266,145
Tires and tubes	150,658	1,115	-	-	151,773
Other materials	57,683	1,324,312	46,140	228,803	1,656,938
	<u>2,451,386</u>	<u>1,348,527</u>	<u>46,140</u>	<u>228,803</u>	<u>4,074,856</u>
UTILITIES	-	-	254,072	-	254,072
INSURANCE	-	-	-	1,375,742	1,375,742
PURCHASED TRANSPORTATION	-	-	-	-	-
MISCELLANEOUS EXPENSES					
Dues and subscriptions	-	216	-	37,348	37,564
Travel and meetings	161	2	-	94,612	94,775
Advertising	-	-	-	631,964	631,964
Facilities	-	-	37,817	-	37,817
Other	-	-	-	64,982	64,982
	<u>161</u>	<u>218</u>	<u>37,817</u>	<u>828,906</u>	<u>867,102</u>
TOTAL EXPENSES	<u>\$ 17,174,686</u>	<u>\$ 5,324,328</u>	<u>\$ 1,014,677</u>	<u>\$ 7,140,990</u>	<u>\$ 30,654,681</u>

Delaware Transit Corporation

Schedule of Expenses by Mode - Paratransit Directly Operated

For the Year Ended June 30, 2005

	Vehicle Operations	Vehicle Maintenance	Nonvehicle Maintenance	General Administration	Totals
LABOR					
Operator salaries	\$ 7,036,052	\$ -	\$ -	\$ -	\$ 7,036,052
Other salaries	1,076,510	741,108	143,287	2,485,429	4,446,334
	<u>8,112,562</u>	<u>741,108</u>	<u>143,287</u>	<u>2,485,429</u>	<u>11,482,386</u>
FRINGE BENEFITS	5,078,372	506,922	93,728	1,595,457	7,274,479
SERVICES					
Professional and technical	15,067	-	62,155	1,032,642	1,109,864
Contract and maintenance	-	252,443	545,524	-	797,967
Security	-	-	1,522	193,117	194,639
Other	12,210	3,892	9,442	109,473	135,017
	<u>27,277</u>	<u>256,335</u>	<u>618,643</u>	<u>1,335,232</u>	<u>2,237,487</u>
MATERIALS AND SUPPLIES					
Fuel and lubes	1,204,057	30,463	-	-	1,234,520
Tires and tubes	115,002	1,474	-	-	116,476
Other materials	60,215	347,493	48,191	154,909	610,808
	<u>1,379,274</u>	<u>379,430</u>	<u>48,191</u>	<u>154,909</u>	<u>1,961,804</u>
UTILITIES	-	-	265,364	-	265,364
INSURANCE	-	-	-	1,810,187	1,810,187
PURCHASED TRANSPORTATION	-	-	-	-	-
MISCELLANEOUS EXPENSES					
Dues and subscriptions	-	284	-	39,009	39,293
Travel and meetings	167	3	-	98,817	98,987
Advertising	-	-	-	4,625	4,625
Facilities	-	-	39,498	-	39,498
Other	-	-	-	67,870	67,870
	<u>167</u>	<u>287</u>	<u>39,498</u>	<u>210,321</u>	<u>250,273</u>
TOTAL EXPENSES	<u>\$ 14,597,652</u>	<u>\$ 1,884,082</u>	<u>\$ 1,208,711</u>	<u>\$ 7,591,535</u>	<u>\$ 25,281,980</u>

Delaware Transit Corporation

Schedule of Expenses by Mode - Fixed Route Purchased Transportation

For the Year Ended June 30, 2005

	<u>Vehicle Operations</u>	<u>Vehicle Maintenance</u>	<u>Nonvehicle Maintenance</u>	<u>General Administration</u>	<u>Totals</u>
LABOR					
Operator salaries	\$ -	\$ -	\$ -	\$ -	\$ -
Other salaries	94,337	65,760	39,548	249,314	448,959
	<u>94,337</u>	<u>65,760</u>	<u>39,548</u>	<u>249,314</u>	<u>448,959</u>
FRINGE BENEFITS	96,650	70,670	41,059	265,247	473,626
SERVICES					
Professional and technical	3,446	-	5,290	108,629	117,365
Contract and maintenance	-	122,230	76,373	406	199,009
Security	-	-	130	16,435	16,565
Other	-	-	804	14,376	15,180
	<u>3,446</u>	<u>122,230</u>	<u>82,597</u>	<u>139,846</u>	<u>348,119</u>
MATERIALS AND SUPPLIES					
Fuel and lubes	4,441	2,950	-	-	7,391
Tires and tubes	5,412	80	-	-	5,492
Other materials	5,245	56,012	4,101	20,183	85,541
	<u>15,098</u>	<u>59,042</u>	<u>4,101</u>	<u>20,183</u>	<u>98,424</u>
UTILITIES	-	-	22,584	-	22,584
INSURANCE	-	-	-	253,426	253,426
PURCHASED TRANSPORTATION	1,765,663	215,041	-	-	1,980,704
MISCELLANEOUS EXPENSES					
Dues and subscriptions	-	40	-	3,320	3,360
Travel and meetings	-	-	-	122,380	122,380
Advertising	-	-	-	54,803	54,803
Facilities	-	-	3,362	-	3,362
Other	-	-	-	5,776	5,776
	<u>-</u>	<u>40</u>	<u>3,362</u>	<u>186,279</u>	<u>189,681</u>
TOTAL EXPENSES	<u>\$ 1,975,194</u>	<u>\$ 532,783</u>	<u>\$ 193,251</u>	<u>\$ 1,114,295</u>	<u>\$ 3,815,523</u>

Delaware Transit Corporation

Schedule of Expenses by Mode - Paratransit Purchased Transportation

For the Year Ended June 30, 2005

	<u>Vehicle Operations</u>	<u>Vehicle Maintenance</u>	<u>Nonvehicle Maintenance</u>	<u>General Administration</u>	<u>Totals</u>
LABOR					
Operator salaries	\$ -	\$ -	\$ -	\$ -	\$ -
Other salaries	63,074	46,971	33,818	249,314	393,177
	<u>63,074</u>	<u>46,971</u>	<u>33,818</u>	<u>249,314</u>	<u>393,177</u>
FRINGE BENEFITS	74,172	55,813	38,899	293,556	462,440
SERVICES					
Professional and technical	-	-	5,290	105,433	110,723
Contract and maintenance	-	15,446	54,552	-	69,998
Security	-	-	130	16,435	16,565
Other	-	-	804	9,317	10,121
	<u>-</u>	<u>15,446</u>	<u>60,776</u>	<u>131,185</u>	<u>207,407</u>
MATERIALS AND SUPPLIES					
Fuel and lubes	2,153	2,107	-	-	4,260
Tires and tubes	7,429	57	-	-	7,486
Other materials	3,512	19,577	4,101	13,183	40,373
	<u>13,094</u>	<u>21,741</u>	<u>4,101</u>	<u>13,183</u>	<u>52,119</u>
UTILITIES	-	-	22,584	-	22,584
INSURANCE	-	-	-	181,019	181,019
PURCHASED TRANSPORTATION	1,208,127	-	-	-	1,208,127
MISCELLANEOUS EXPENSES					
Dues and subscriptions	-	29	-	3,320	3,349
Travel and meetings	-	-	-	122,380	122,380
Advertising	-	-	-	236	236
Facilities	-	-	3,362	-	3,362
Other	-	-	-	5,776	5,776
	<u>-</u>	<u>29</u>	<u>3,362</u>	<u>131,712</u>	<u>135,103</u>
TOTAL EXPENSES	<u>\$ 1,358,467</u>	<u>\$ 140,000</u>	<u>\$ 163,540</u>	<u>\$ 999,969</u>	<u>\$ 2,661,976</u>

Delaware Transit Corporation
Schedule of Expenses by Mode - Rail
For the Year Ended June 30, 2005

	<u>Vehicle Operations</u>	<u>Vehicle Maintenance</u>	<u>Nonvehicle Maintenance</u>	<u>General Administration</u>	<u>Totals</u>
LABOR					
Operator salaries	\$ -	\$ -	\$ -	\$ -	\$ -
Other salaries	-	-	12,308	39,908	52,216
	<u>-</u>	<u>-</u>	<u>12,308</u>	<u>39,908</u>	<u>52,216</u>
FRINGE BENEFITS	-	-	2,815	10,167	12,982
SERVICES					
Professional and technical	-	-	-	53,321	53,321
Contract and maintenance	-	-	20,000	-	20,000
Security	-	-	-	-	-
Other	-	-	-	-	-
	<u>-</u>	<u>-</u>	<u>20,000</u>	<u>53,321</u>	<u>73,321</u>
MATERIALS AND SUPPLIES					
Fuel and lubes	-	-	-	-	-
Tires and tubes	-	-	-	-	-
Other materials	-	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
UTILITIES	-	-	-	-	-
INSURANCE	-	-	-	-	-
PURCHASED TRANSPORTATION	6,709,081	-	-	-	6,709,081
MISCELLANEOUS EXPENSES					
Dues and subscriptions	-	-	-	-	-
Travel and meetings	-	-	-	71,982	71,982
Advertising	-	-	-	-	-
Facilities	-	-	-	-	-
Other	-	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>71,982</u>	<u>71,982</u>
TOTAL EXPENSES	<u>\$ 6,709,081</u>	<u>\$ -</u>	<u>\$ 35,123</u>	<u>\$ 175,378</u>	<u>\$ 6,919,582</u>

Report on Internal Control Over Financial Reporting and Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Delaware Transit Corporation
Dover, Delaware

We have audited the financial statements of the business-type activities of Delaware Transit Corporation as of and for the years ended June 30, 2005 and 2004, and have issued our report thereon dated August 17, 2005. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

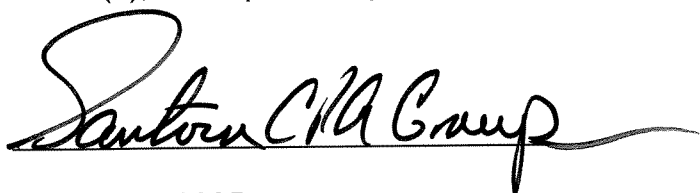
In planning and performing our audits, we considered Delaware Transit Corporation's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting, which we have reported to the management of Delaware Transit Corporation in a separate letter dated August 17, 2005.

Delaware Transit Corporation

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Delaware Transit Corporation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of Delaware Transit Corporation's management, Office of the Governor, Office of Controller General, Office of Attorney General, Office of Management and Budget, Department of Finance, and Office of Auditor of Accounts, and is not intended to be and should not be used by anyone other than these specified parties. However, under 29 Del. C., Section 10002(d), this report is a public record and its distribution is not limited.

A handwritten signature in black ink, reading "Santora CPA Group". The signature is fluid and cursive, with a long horizontal line extending to the right.

August 17, 2005
Newark, Delaware